RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Sept. 28, 1994 **LETTER 1157**

"When governments fear the people, this is liberty. When people fear the government, this is tyranny." Thomas Jefferson. **Russell question:** Which one are we at now? I know, do you?

"This year is shaping up as the ***worst ever*** *for bond market investors . . ." NY Times*, Sept. 20. **Russell comment:** In BIG bear markets, sooner or later, everything heads south. And you thought bonds would be an exception?

DIVISOR: With the recent split in Caterpillar, the divisor on the Dow has dropped to a record low of 0.3715. That means that if every stock in the Dow was to change by only half a point, the Dow could move up or down over 40 points. The extremely low divisor is generating increasing volatility in the Dow.

MARKET PICTURE: When a market reacts to every news event as this one has, you know the public is heavily involved. "Professional markets" (i.e., markets with few public participants) move before the news; markets with heavy public participation move on the news.

A good example of this was seen two weeks ago. When the Producer Price Index was announced at a "surprisingly" high 0.6%, the Dow fell 33 points (the Dow was down as much as 49 intra-day). Two trading days later the Consumer Price Index came out at a "surprisingly" low 0.3%, and the Dow rallied over 19 points. As I said, markets that trade on the news tend to be "amateur markets." Professionals don't like to buy or sell on news.

EXTRAORDINARY DIVERGENCES: I've called attention in Letter after Letter to the **diverging trend** in the Averages. The truly remarkable thing about the divergence is that nobody else seemed to have noticed it (or if they did, they didn't deem it important enough to talk about). When the Averages "don't agree" they are spelling trouble. Prolonged and flagrant divergence (as we have experienced recently) almost always indicates **distribution.**

Let's review a bit of recent history. As you can see on the page 1 chart, the D-J Industrial Average had substantially bettered its June 14 high, and by September 19 the Dow was within shooting distance of its January 31 record high of **3978.36.** At the same time the D-J Transports had refused (by a very wide margin) to confirm the action of the Industrials. In fact, on the same day -- September 19 -- the Transports were a shocking 296 points under their own record high and within a few points of their bear market low (the low was set on April 20 at 1546.02). The situation represented one of the **most flagrant divergences** between Industrials and Transports that I can remember.

Meanwhile, the Utility Average had sunk to within a few points of a new '94 low (the 1994 bear market low was 177.71) -- actually, the Utilities were within a few points of a six-year low. On a closing basis the Utilities have declined a whopping 30% from their 1993 bull market high.

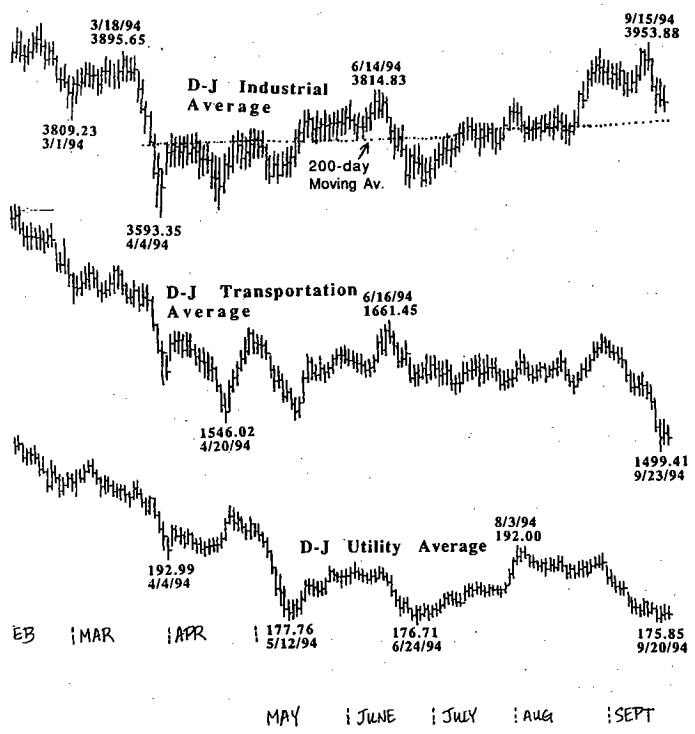
On September 20 the bear came out of its lair. The Dow plunged 67 points, the Transports dropped 35 points to a new bear market low, and the Utility Average broke below its June 24 point to close at a six-year low (that's right, a six-year low).

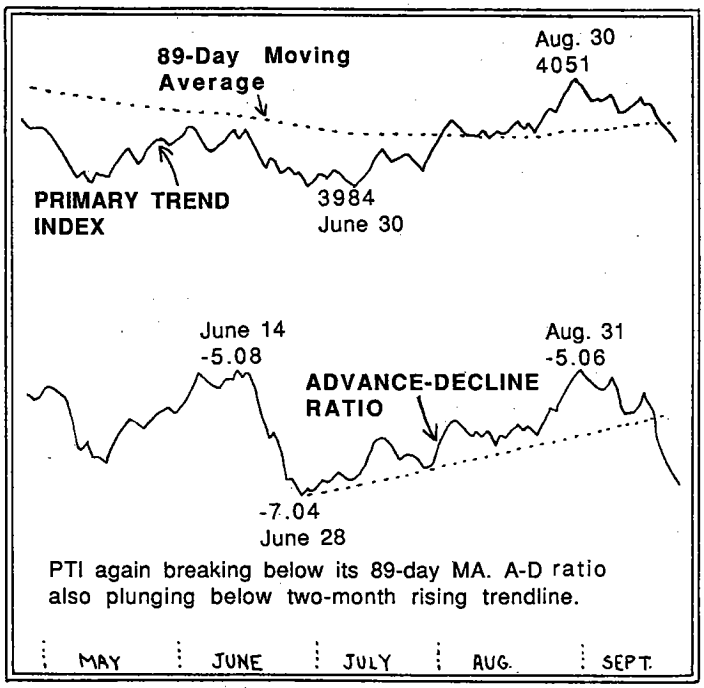
Sept. 16 DJIA 3933.35; PTI 4034; A-D Ratio -5.63
Sept. 23 DJIA 3831.75; PTI 4010; A-D Ratio -6.87
Dow Yield: 2.76%; Dow Price/Earnings: 20.3
Dow 200-day MA: 3784; Dow 30-day MA: 3858
Dow Times Book Value: 3.42; PTI 89-day MA: 4023
Percentage of Undervalued Blue-chips: 11%
Dow Low Risk Buy Index: +35; Gold-PTI: 1061
Gold 40-week MA: 384

Through it all, the public has remained stubbornly bullish. How is this possible? It's possible because the public has been primarily **focused on "the Dow."** But holders of diversified portfolios know that a great deal of damage has already been done to their stocks. Headlines like "Dow 4200 by year-end" and "a 5000 Dow by late '95" has kept the typical stockholder either hanging on, hoping or buying additional mutual fund shares. Public sentiment doesn't change very quickly and public sentiment today has fully accepted the thesis that "holding common stocks through thick and thin is the royal road to riches."

For most of my subscribers, this has been a frustrating period in many ways. But it shouldn't have been. I prefer to think of it as a learning period. What are we learning? Hopefully, we're learning "how not to lose money in the early and deceptive part of a primary bear market." How does one "avoid losing money?" You avoid losing money by **not doing what everybody else is doing.** And what everybody else is doing is buying mutual funds -- buying them hand over fist.

As the bear market wears on, the losses will add up. First the losses will be selective and deceptive, masked by "the high Dow" plus the mandatory optimism and never-ending buy recommendations of Wall Street analysts. Then as the bear ultimately drags the Dow down, losses will increase and at some point the public will recognize what is happening. This recognition will give way to surprise, confusion, fear and finally panic.





The panic occurs when tens of thousands of people call their brokers or their mutual fund organizations and give them orders to "switch to a money market fund" or "liquidate my account immediately and send me the money." That kind of sentiment will mark the beginning of the second phase of the bear market, and believe me, it will not be a pretty phase.

Normally, the first phase of a bear market is short (in duration). But today we have a public that has remained amazingly complacent -- confident that their mutual fund managers ("hey, they're professionals, aren't they") will keep everything stable and profitable. So as I interpret it, we're still in a rather **extended first phase** of the bear market.

The first phase is the phase in which the market erases the froth and frenzy of the preceding bull market top. Which is really all that's happened so far -- the froth, the foam, the frenzy of the last few years is gradually disappearing. The costly "mark of the bear" has been imprinted on most accounts by now -- but the real losses, the big bear market losses -- they lie ahead (although I must admit that bond and utility holders have already suffered some frightful losses).

I've received a number of Letters questioning the action of the Transports, questioning their very validity. In the last Letter I explained that the Transportation Average reflects the **sales** and **shipping** capabilities of the nation. If you manufacture the goods but the goods are not sold, then what you have is simply a build-up of inventories. And if inventories pile up, then sooner or later factories will be forced to slow down or even halt production. And yes, I do believe that the Transportation Average does faithfully reflect the shipping and sales capabilities of the nation.

Inventories Rose In July as Sales By Business Fell

Increase in Stockpiles Was The Fourth in a Row, Sign of Slower Growth

By Christopher Georges
Staff Reporter of The Wall Street Journal

WASHINGTON – Business inventories rose modestly in July, marking the fourth consecutive month in which stockpiles increased.

The 0.3% increase – to a seasonally adjusted $801 [illegible]

Along these lines this clip from the Sept. 16 *WSJ* tells an important story, a story that apparently nobody seems to have noticed. But the Transports have most definitely taken note of the situation.

PARADOX: It's strange -- wholesale prices rising at an annual rate of over 7% while the Consumer Price Index shows an annual rate of increase of only 3.6% (if we can believe government statistics).

Here's what I think is happening. There's no questioning the fact that prices have been rising at the raw materials level -- from copper to zinc to steel, from wheat to sugar to coffee.

But at the same time a continuing wave of layoffs is sweeping across not only the US but across the globe. **Cost cutting** is the watchword of the '90s, and the cutting is being done not only via firings but with "just-in-time" inventory-buying, computer efficiencies, contract labor vs. full-time employment, and through major corporate mergers (with accompanying pink slips to tens of thousands of employees).

The cost-cutting furor is worldwide, even to the extent of layoffs in Europe and Japan (up to recently, jobs in Japan were considered guaranteed lifetime contracts).

In the face of falling trade barriers and vicious competition from low-wage nations like China, Taiwan, Korea and Vietnam, consumer prices have held the line and in a great many cases, prices have even declined. **Result:** inflation at the raw materials level and dis-inflation at the consumer level.

Interesting example of dis-inflationary cost-cutting: The *WSJ* (Sept. 13) included an article entitled, "Ticketless Plane Trips, New Technology Forces Travel Agencies to Change Course." The gist of the article was that people can now buy airline tickets through their PCs, and thus, *"for a few keystrokes . . . avoid paying a travel agent commission, bypassing computer reservation systems and keep the fare all to oneself . . . Already travel agents, whose revenues are tied to commissions based on ticket sales, are feeling the pinch: Fares are down 8% overall this year, but in the hundreds of markets where cheap, short-haul service has sprouted, they have fallen by more than a third."*

LOOKING AHEAD: I've been thinking a lot (yeah, as usual) about what lies ahead, what the bear market could bring about, and why I don't like "the story" the Averages are telling ("don't like" is putting it mildly).

More and more, I'm giving credence to the idea of coming world deflation. The fact is that the world money supply, as evidenced by the **growth rate** of G-7 money, is at an historic low. While every nation wants money, needs money -- the money growth just isn't there.

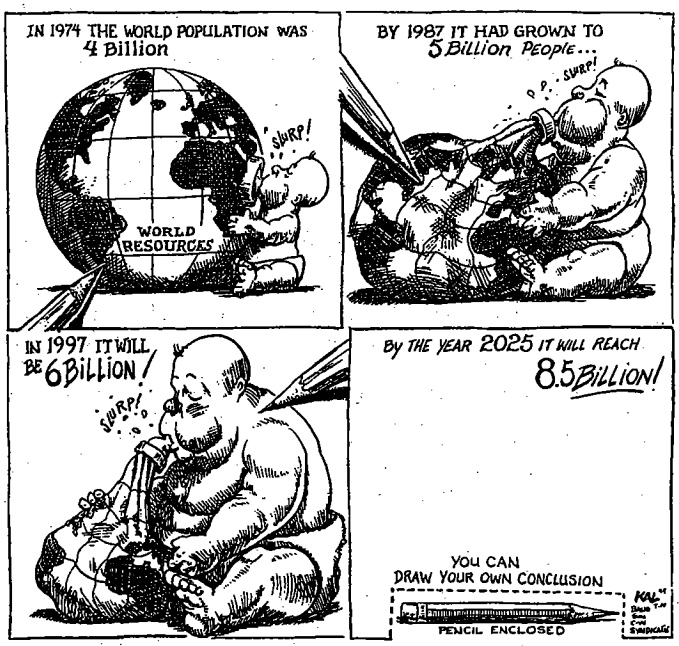
Furthermore, I've been bothered by gold's upward struggle. Wholesale prices in the US are rising at a 7.2% rate and gold has trouble climbing above 400. Why? Is some force bigger than the Producer Price Index holding gold back? Is the shadow of **world deflation** lurking in the background? It almost seems so.

I just received Julian Snyder's *"Armageddon Letter"* (PO Box 58, 7500 St. Moritz, Switzerland). Julian has been corresponding with John Shuttleworth, a longtime subscriber of mine. John is founder of the famous *Mother Earth News*, and he's an acute observer and a very original thinker. John, like Julian, believes that massive world deflation lies ahead. In a letter to Julian, John writes, *"Have you totaled up the Western World's debt lately? Have you taken a look at the dollar's backing lately? Have you noticed large numbers of refugees sloshing into Germany and France and England and Canada and New Zealand and Australia and the US? Brushfire Wars? Everywhere? The streets taken over by gangs? Everywhere? Homeless? Everywhere? Stress and skyrocketing mental illness? Everywhere? Chaos and confusion, in other words? Everywhere?"*

And I think to myself, what John Shuttleworth is saying sounds right. He's seeing through the fog. I've been on this earth long enough to be able to make comparisons with other times. I've been here long enough to remember the 1930s, the '40s, the '50s. And I

can tell you that the situation today is different. Millions dying in wars and disease in Africa, every nation and individual in debt, a sinking dollar, Russia still a dangerous enigma, Haiti and Cuba a mess, dope everywhere, AIDS, new viruses without any cures, black and Hispanic underclasses growing rapidly, gangs running wild in almost every city in the US, teenagers acting like natural born killers, ragged crazies wandering through the streets of America, a waffling US president whose popularity is in the basement, a Congress that succeeds only in arousing people's wrath -- take it all in, and you do get a feeling of grunge, decay, immorality, even potential chaos. Yes, what John Shuttleworth talks about is happening -- it's here.

And I believe it does jibe with the beginning of a bear market and world deflation. It's all too much to manage, too much to figure out, and almost too much to cope with. Secretly (I hate to say this out loud), I believe there are just too many people on this earth. I think the world's 5.5 billion people are polluting the world. And it's getting worse. This cartoon is probably the least funny cartoon of '94. As a matter of interest, for roughly 98% of mankind's history the earth's population has been below 250 million.


IN 1974 THE WORLD POPULATION WAS 4 Billion
SURP!
WORLD RESOURCES
BY 1987 IT HAD GROWN TO 5 Billion People...
SURP!
IN 1997 IT WILL BE 6 BILLION!
SURP!
By THE YEAR 2025 IT WILL REACH 8.5 BILLION!
YOU CAN DRAW YOUR OWN CONCLUSION
PENCIL ENCLOSED

KEVIN KALLAUGHER, Baltimore Sun

Anyway, for what it's worth, these are some of the items I see underscoring the bear market. Broad stock averages that refused to go to new highs, gold that has not yet gone over 400 (in the face of inflationary news), interest rates rising worldwide, bonds around the globe taking a terrific beating, the Transportation Average breaking to new bear market lows, a Utility Average sinking to six-year lows -- to me it's all beginning to add up. It adds up to hard times ahead, and very probably world deflation (and now we have the first year since 1904 without a World Series -- could that be an omen?).

DOLLAR: The dollar continues long-term **weak.** It's near a post WWII low against the yen, it's near a 20-month low against the D-mark. The international value of the dollar reflects **money flows** -- it reflects the negative US trade balance and the negative US current account balance. The path of a currency traces the underlying strength or weakness of a nation's economy. A weak currency can be likened to anemia in a person. If the disease worsens, if it isn't checked, it will bring down the patient.

Ordinarily, the weak dollar should generate an export boom for the US. And it's true, exports have been increasing. But despite that the dollar remains weak. The weak dollar presents a negative background for securities -- particularly for bonds (and, of course, bonds impact on stocks).

Wall St. Mourns Its Mortgage Profits

By SAUL HANSELL

Behind much of Wall Street's year of distress, which is forcing the first round of retrenchment and layoffs since 1990, is the collapse of the market for bonds backed by home mortgages.

The bonds, known as mortgage-backed securities, make up some $1.5 trillion, or 30 percent, of the total

Firms drop traders and slash bonuses as a sector sours.

the firms lost money on their mortgage-bond holdings. They also had more trouble creating and selling

the prospect of having those revenues decline — never mind the prospect of losses — is a major concern."

And traders admit that they do not expect a turnaround soon.

"We've been in bear markets before," said Brian Zipp, who oversees mortgage-backed trading at Lehman Brothers. "But we've never had a bear market for rates, and a bear market in terms of new mortgage production and a bear market in

BONDS: Now listen carefully to this: CMOs or collateralized mortgage obligations are made up of mortgage pass-throughs. Wall Street has been turning out CMOs by the truckload. Last year two-thirds of all mortgage pass-throughs were converted to CMOs. Putting together and selling these mortgage-backed securities has been an absolute bonanza for the Wall Street underwriters (i.e., Kidder Peabody, Lehman, Bear Stearns, Merrill Lynch, Salomon, etc.). They made billions on these securities. But that was then -- this is now. Get this -- current outstanding mortgage-backed securities amount to **$1.5 trillion or 30% of the entire US bond market.**

And suddenly, nobody wants CMOs. Rising rates have killed them, there are just too damn many of them and consequently they've been going down, down, down in price. What -- $1.5 trillion in mortgage-backed securities hitting the deck? That's right. Talk about losses, those that hold the CMOs are in shock. And the bear -- well, he's just enjoying himself.

BOND LOWS: A new low for the year was recorded on Sept. 16 as the bond futures broke almost two points. The losses in bonds (both domestically and internationally) have been staggering. As for our overseas friends, in the face of the weak dollar, foreigners holding US bonds have been suffering the dreaded "double whammy." They've been losing both on the dollar (which the bonds are denominated in) and on the actual price of the bonds.

Ordinarily, in the face of the continuing weak dollar, the Fed would be expected to raise rates to defend the dollar. But with an election coming up with inventories rising and with a staggering bond market, a rate boost is "iffy" -- unless, of course, the dollar collapses. As for Greenspan, all I can say is, "Fun's over, Alan, it looks like the bear is tired of hibernating."

INVESTMENT POSITION: You know the old joke, "What do you give to a man who has everything?" Answer: "A shot of penicillin." All right, "What do you give to an investor who's holding everything?" Answer: "A shot of reality." The bear's in the box, which should serve as a warning. But ol' bruin is doing his job. That job is to keep investors happy and hoping, and to lure them into a frame of mind known as "buy, buy, buy more stock." The buying has even included the recent offering of Macheezmo Mouse Restaurants, a low-cal Mexican chain of only 12 restaurants (the stock flew out, selling at a premium of 42% from its $6 a-share offering price). That should tell us something about today's sentiment.

Let's make it short and sweet. If you haven't already done so, get liquid. If you buy stocks here, be aware that you're buying in one of the most overvalued markets in history. As noted on page 1, the Percentage of Undervalued Blue-Chips is now down to 11%, historically a dangerously low level. At these prices, you might as well play the slots at Las Vegas. At least they don't charge commissions.

There's a time for everything. There's a time to make profits, and there's a time simply to avoid losses. We're in the latter time period now. The idea is to survive this bear market while sustaining as few losses as possible. And don't tell me you won't take any losses. You hold dollars, don't you (or something denominated in dollars)? If so, you've already taken losses, as far as your international purchasing power is concerned.

NOTES & QUOTES: About the treaty or what ever you call it in Haiti. Gad, has General Cedras pulled a "Saddam Hussein" on Bill Clinton? Haiti's own chief killer, General Cedras, in power for another month and then allowed to remain in Haiti? Cedras' police and military to be retained -- and retrained to keep the peace in Haiti? And Cedras and his generals to retire and just behave like good little Haitian citizens? Sounds pretty iffy to me. This is the best deal the "world's only super-power" could swing? Pardon my skepticism. I suspect that General Cedras has pulled a fast one and Bill Clinton, against the wall politically, has waffled into what he hopes is a public relations triumph (it isn't and won't be). As for Washington's sycophantic 21-gun salute to Aristide (it really happened), that represented the "turn-off of the month" for me.

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How 'bout that dollar? Here's Merrill Lynch's appraisal of whether leading currencies, strictly on a **purchasing-power-parity** (buying power basis), are cheap or expensive vs. the dollar. D-mark is 16.8% too expensive vs. the buck. Yen is 40% too expensive. Pound is 2.8% underpriced. Canadian dollar is 15.4% underpriced. French franc 8.7% overpriced. Swiss franc 23% overpriced. Australian dollar 13% underpriced. New Zealand 5.4% underpriced. Italy 3% underpriced. Russell comment: Take your vacations (and your dollars) in Canada or Australia.

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More on the dollar: to fund its massive annual deficits, the US has depended on large infusions of foreign capital. But with Germany spending its capital on up-grading its industry and on East Germany, with Japan sending its capital to Asia and with most of the world needing all the money it can get its hands on (this is particularly true of the underdeveloped nations), the price of money should remain firm. Therefore, expect the US to find it increasingly difficult to attract foreign financing. Which will mean pressure on US Treasury debt (of which, the world is loaded).

* *

With car prices advancing almost across-the-board, the squeeze is on the average car buyer. In 1993 the average car purchase consumed 25.9 weeks pay for someone with the median family income of $36,764. In 1983 it took 22.5 weeks of income to buy a car. Back in 1973 it took only 17.5 weeks of income to buy a car.

* *

Yes, I actually read the letters to the editor, and often you find a beaut. Recently the *LA Times* ran an article which wondered, with the economy in supposedly good shape, why Clinton's approval rating is still scraping the bottom. Here's one reader's answer:

* *

One of the main sources of citizens' anger towards government stems from the outrageous US federal tax system (tax industry, I call it). A flat tax or a national sales tax are ideas whose time has come. Of course, politicians hate the idea, since Washington uses the current tax system to reward those who vote for them. Nevertheless, New Jersey Republican Senate candidate Chuck Haytaian has come out supporting a flat Federal tax of 17%. A number of Republican candidates have also endorsed the flat tax in their strategy to wrest control of the Senate in the November elections. **Russell comment:** I've said it before, and I'll keep repeating it -- Republicans should come out (all of them) for the flat tax or a national sales tax to replace the current disgraceful, hopelessly complicated, inefficient tax system (scrapping the IRS at the same time). If they did this, I would almost guarantee a Republican sweep in November.

■ Re "Economy Keeps Improving, Why Aren't Clinton's Polls?" by Walter Russell Mead, Opinion, Sept. 4:

I believe we are near the end of a long period during which people looked to government to solve their problems. In the process, government has come to consume over 40% of the economy. It employs 33% of the work force, which produces very little; mostly it redistributes our tax money. These people live off the money the government takes and returns—after keeping most of it to pay for employees and the redistribution system.

Non-government workers find themselves strapped because they not only support their own families, but also carry the unproductive government sector. Each productive private sector worker is paying for almost two families.

There are numerous signs that productive workers are disgusted. They will look more and more to themselves for solutions in the coming years. The first part of this period will likely have a strong tone of morality, individual responsibility and high productivity. But first, some crisis will arise that will galvanize the productive sector into taking control of government and their lives.

EUGENE KURCHAK
Los Angeles

Haytaian Endorses Proposal For Flat 17% Federal Tax Rate

By JERRY GRAY
Special to The New York Times

TRENTON, N.J., Sept. 13 — Adopting a populist strategy that proved crucial to Christine Todd Whitman's upset victory in last year's New Jersey gubernatorial race — the promise of a huge tax cut — the Republican candidate for the United States Senence today, Mr. Haytaian released his tax-cutting idea nearly a year to the day since Mrs. Whitman took a similar tack.

But it is unlikely that Mr. Haytaian's proposal will have the political currency or create the political stir that Mrs. Whitman's did. As Governor, Mrs. Whitman was able to deliver almost immediately on her

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I guess you've read about the current exhibit at Washington DC's Smithsonian Museum. The exhibit (in honor of the 50th anniversary of the World War II's ending) was about the carnage that resulted when the atomic bombs were dropped on Japan. The Smithsonian's sympathy was all for the Japanese with outrage reserved for America's beastliness. But the exhibit set off such an outcry of anger from WWII vets that the Museum sponsors were pressured to change the script three times.

Let me give you a bit of personal history. After the war in Europe was won, I was one of the first airmen to be sent back to the States. But there was a catch -- my squadron was returned to the States early because we were to be "redeployed" to fight in the Pacific. We flew back in our B-25 bombers with crews fully intact. Since the B-25s had limited range, to get back to the States we had to fly south from Italy down the west coast of Africa to Liberia. From there we headed across the Atlantic, landing and refueling at tiny Ascension Island in the mid-Atlantic. From Ascension, we flew to Natal, Brazil, then north to Dutch Guyana, thence to Puerto Rico, and finally to S. Carolina. I was given a 30-day leave to see my family in NYC. After that I was to be transferred as bombardier-navigator on the new A-26 attack bomber. From there I was to fly to the Pacific, to be part of the great coming assault on Japan itself.

I had lived through combat in Europe, and I wondered whether I would be lucky enough to live through a second round of combat in the Pacific. It was the first time in my life (and the last) that I got drunk every night, drunk for 15 days straight. Liquor helped me forget, and frankly, I wanted to be in a frame of mind where I didn't give a damn whether I was dead or alive (of course, underneath I suffered a constant feeling of dread). We had all heard that Japan was heavily-armed and almost impregnable, defended by a population of fanatic Japanese. The word was that a million Americans would die in the titanic battle to capture "Fortress Japan."

The guys in the Air Force had heard rumors of a new American super-weapon that was to be unleashed on Japan. My buddies and I prayed that it was true. Then on August 7, 1945, the headlines blared the news (I still have the *NY Times*): "First Atomic Bomb Dropped on Japan; Missile Is Equal to 20,000 Tons of TNT. Truman Warns Foe of a 'Rain of Ruin.'" A few days later a second atomic bomb was dropped on Nagasaki. Faced with utter annihilation, the Japanese surrendered. Was I happy? I was delirious. Deliverance. I believed my life and the life of all my bomber crew had been miraculously saved. Deep in my heart I had doubts about whether I would live through the war in the Pacific. My thoughts regarding the current Smithsonian exhibit -- I'll bet that not a single one of those fools who planned and put on that exhibit ever fought in WWII.

* *

Did you see HBO's excellent film, "The Doomsday Gun"? You probably thought the plot was a TV fantasy -- it wasn't. Last week five Swiss businessmen were arrested for supplying parts for Iraq's planned giant super-gun. The purpose of the monster gun (with 1000-mile range) -- to bombard Israel with one-ton shells

loaded with deadly anthrax bacteria. In a sensational case, five British businessmen are already on trial for supplying components for Saddam's super-gun. Yep, it's incredible the depths people will stoop to -- just to make money.

* *

Three of Hollywood's top moguls appear to be looking for work (although not too desperately, since each is worth multi-millions). They are David Geffen (he's worth a billion), Jeffrey Katzenberg, late of Disney, and Barry Diller. One rumor is that the three will get together and come up with a new company. I think it's a good rumor.

* *

The crime bill has passed. It won't provide anything like the promised 100,000 cops, more like 22,000. And the government is only going to finance $9,000 of the salaries of those 22,000. The assault gun ban is utter nonsense. Forget taking the guns from honest citizens, how are we going to get them from the criminals? Actually, only 19 assault rifles are banned, but there are dozens of "close cousins" to the 19 that are still legal. Again, I'll repeat, crime in America is basically a function of the current "fatherless family" and a breakdown of society. Do sane societies worry about guns? Tom Clancy, in the forward to his book, "Guns, Crime and Freedom," writes, "Switzerland is a land where crime is virtually unknown. Yet most Swiss males are required by law to keep in their homes what amounts to a portable, personal machine gun." (Russell note: the same is true of the Israelis)

* *

I'm not a racist but look at these figures: Murder per 100,000 populace: Britain, 7.4; France, 4.6; Germany, 4.2; Italy, 6.0 ; total USA, 9.3; US whites, 5.1; US blacks, 43.4. The figure for black murders is horrendous (much of it is black crime against blacks). In the meantime there are a record 1.3 million inmates in US prisons, 583,000 (44.8%) of them black. The total is up 22% from five years ago. Only Russia has a higher percentage of incarceration. **Russell comment:** The cost of narcotics-connected crime and imprisonment is breaking the bank (building penitentiaries is the biggest growth industry in town). Over 100,000 people a year are being incarcerated in state or federal prisons on dope-related crimes. In the end, dope will have to have some kind of legalization. We can't afford what's going on today.

* *

This sentence gets the prize for the best opener of the month (refers to Kohlberg, Kravis, Roberts &. Co. taking over Bordens): "The Barbarians at the Gate are now milking Elsie the Cow." Of course, what this means is that KKR is getting out of half of their holdings in RJR Nabisco (they'll be down to 17.5% in RJR) and moving into Bordens instead. Great, unless you're an RJR holder. But wait, the Bordens' stockholders don't like the deal. And they may vote it down.

* *

Profits in bull markets: By now most of my subscribers are aware of the "automatic formula" (it works well) which dictates holding the five highest-yielding Dow stocks and revising your holdings each six months with the new list of highest yielders. For the record, here are the current five highest-yielding Dow Industrials -- Texaco, 5.21%; Philip Morris, 4.98%; Exxon, 4.81%; Chevron, 4.46%; JP Morgan, 4.22%.

* *

According to *Newsweek* (Sept. 19), Hillary "has taken herself out of the personnel-and-policy loop" . . . and has no intention of reclaiming her roll as de-facto chief of staff. *"She's 'shell-shocked,'* says a friend who predicts that Mrs. Clinton will act like much more of a traditional First Lady for the rest of her husband's term." About the failure of the health plan, *"She is angry and bitter. At this point she is trying not to play the blame game, at least in public. In private, she fumes at everybody . . . A year ago Hillary wowed lawmakers with her command of health-care-reform, but now she's as tired of them as they are of her."*

* *

Lloyd's of London, the battered British insurance company, is finally going to play hard ball. Last week it announced that it would send debt collectors after the wealthy investors who failed to cover $2.02 billion in losses. Lloyd's said it was making the move in lieu of filing roughly 14,000 lawsuits against people it considered to be wealthy deadbeats. You see, when you're a "number" (i.e., a Lloyd's partner) you're responsible for losses are well as profits, and Lloyd's has had a ton of losses.

* *

Can anyone stop Blockbuster Entertainment's president Wayne Huizenga? Will he soon own the state of Florida? Wayne bought the expansion Florida Marlins and he bought the Florida Panthers. This year he bought the Miami Dolphins plus Joe Robbie stadium where the Dolphins play. Meanwhile his brother-in-law completed a grand-slam by acquiring control of the Miami Heat. Maybe Wayne should buy ALL off the 28 baseball teams and run them the right way, by sharing the profits.

* *

OK, that's the story from one Wayne. Here's the story that another Wayne is telling (and believe me, the Fed wishes he'd go away):

Former Fed Gov. Angell Sees Recession In 1996

Former Federal Reserve Governor Wayne Angell expects the economy to fall into recession in 1996 as the Fed fights inflation with higher interest rates, sources said. The former Fed official, now chief economist at Bear Stearns Cos. Inc., said in a call to clients that the best thing the Fed could do — but probably wouldn't — is shock markets by boosting short-term interest rates by 100 basis points this month. He noted that gold is trading at about $390 an ounce, above the $340 to $360 level that would prove monetary policy "is working."

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There are two new books out dealing with Marlon Brando, a biography and an autobiography. Besides numerous Broadway appearances, Brando made 35 movies. The two most famous were "A Streetcar Named Desire" and "On the Waterfront." Brando changed American acting with his shattering, animal-like performance as Stanley Kowalski in Streetcar ("Stella!"). For a while, every young actor attempted to act like or be another Brando. And almost everyone remembers or knows about the famous taxi scene in Waterfront ("I could'a been a contender. . "). The great director, Elia Kazan, called Brando's taxi performance "the finest thing ever done by an American film actor."

I was there when the historic taxi scene was made. It was made at my brother-in-law Lee's film studio in NYC. The reason it was made there was that Lee had the only cut-off or half-shell taxi in town. Brando was America's most famous and sought-after actor and Lee called me to tell me that Brando was going to be at his studio. People had kidded me for years about looking like Brando (yeah, I was pretty good-looking as a young man) and Lee said I should come down and see what Brando's reaction to me would be. So down I went. When I entered the studio Brando was sitting alone on a long bench sort of brooding. I sat down a few feet from him and said nothing. Brando said nothing. Finally, I said, "Hi." Brando turned to look at me and did a double-take; he obviously saw the resemblance. He said, "Hi ya," that was all. And that was my total conversation with Brando.

Then the taxi scene took place with Brando and Rod Steiger. Kazan (nicknamed "Gadg") was directing. What surprised me was that they did the taxi scene over about five times and each time I thought both Steiger and Brando were terrific. Finally, Kazan seemed satisfied and the scene was "a wrap." Then Kazan came over and asked me what my father-in-law was really like and was he as big a womanizer as Kazan had heard he was. My father-in-law, Max Lerner, was a professor and well-known liberal author and newspaper columnist. I told Kazan that I didn't know whether Max was a womanizer since I had never seen him out with "other women." Kazan shook his head thoughtfully and told me that he was a big fan of Max's. I left the studio, not knowing at the time that I had witnessed the making of an historic motion picture scene.

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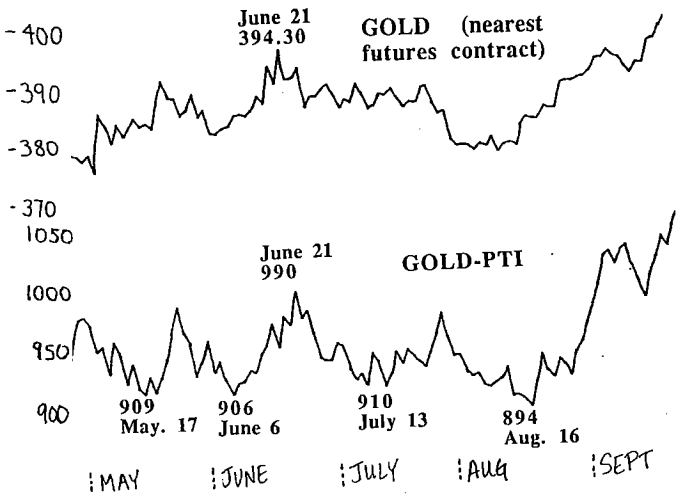
Nobody questions that Asia is becoming the world's largest market. People I talk to who have just come back from China tell

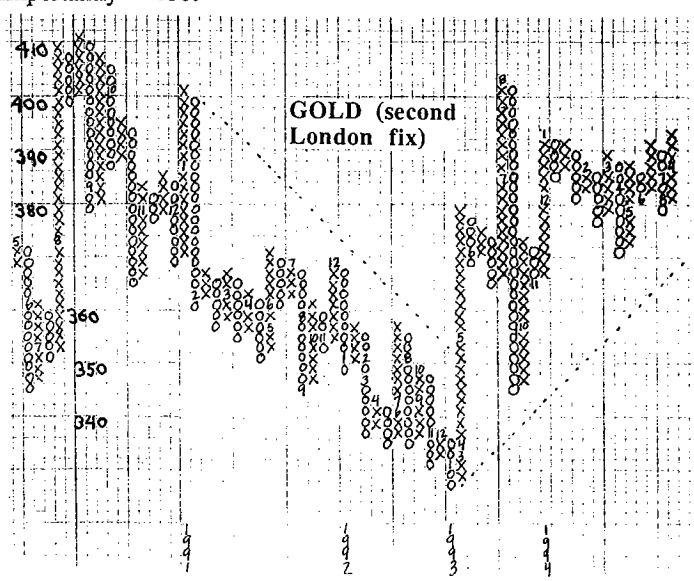
me that the coastal cities are booming, that Shanghai is becoming the New York of Asia (as it used to be) and that signs of new wealth are everywhere in China and the "new Asia." The Asia/Pacific region now holds 56% of the world's population -- in 25 years it's projected to grow to 62%. According to data from the IMF, Japan's exports to Asia are exceeding America's by an ever-increasing margin. Actually, Japan's exports to Asia are now almost as large as its surplus with the US. Japan's investment in Asia is concentrated on factories and distribution; more than half of the US' investment is in petroleum, a depletable resource.

GOLD: As it has for many months, 400 remains an upside barrier for gold. Why 400 has been such a difficult number for gold to surmount I don't know. Could Fedhead Greenspan have cast a voodoo spell on the gold 400 level?

However, as you can see on my chart, the near-term gold contract has rallied to a high for the year, bettering its June 21 peak of 394.40. At the same time, my **Gold-Primary Trend Index** (G-PTI) has advanced to a seven-month high and is now nearing its March 25 peak of 1077. This, of course, is constructive action.



The point & figure chart tells us that the next bullish sign would be a second London gold fix of 396. If **396** is hit, the next upside target would provide the magic **400** number -- but more importantly -- **406.**



A London second fix at 406 would be a very bullish achievement for gold, opening the way for a rise to the mid-400s. But wait -- let's not jump the gun -- first London gold has to move above 400, thence to 406. Meanwhile, the entire gold universe, metal and stocks, is somewhat overbought, suggesting some kind of consolidation.

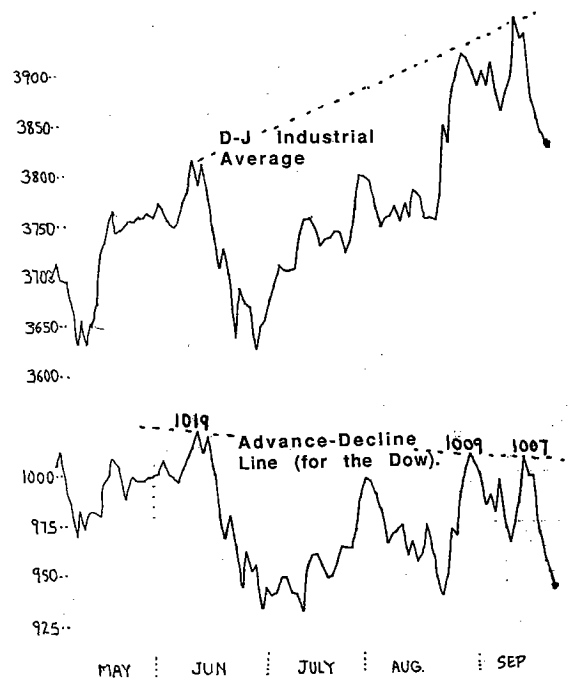
Silver, by the way, is confirming the bullish action of gold, and on Sept. 23 the December silver contract hit 5.75. Good action. Gold stock leaders are Amer. Barrick, Placer Dome, Homestake, ASA. Benham gold mutual fund has been outstanding [(800) 321 -8321].

LATE NOTES: A re-confirmation of the bear market would require both the Dow and the Transports to break to new bear market lows. Last week the D-J Transports did plunge to new lows, thus rendering HALF a re-confirmation signal. Industrials, however, are still well above the comparable April bear market low of **3593.35.**

However, in the majority of cases, a primary penetration by one Average will be followed (in due time) by a penetration of the other.

With new Transport lows, we now have a downside non-confirmation on the part of D-J Industrials. Clearly, the Dow has been the "strength" of the market. For this reason, it becomes particularly instructive to examine the internal structure of the Dow itself.

Again, I include my chart of the Dow and its advance-decline line (made up exclusively of the 30 D-J Industrial stocks). As you can see, the Dow A-D line has moved increasingly "out-of-gear" with the Dow itself -- which means that the Dow A-D has lagged well behind the Dow on rallies and it has led the Dow on declines. This tells us that fewer and fewer Dow stocks are participating on rallies while the majority of the Dow stocks are participating on the declines. The divergence between the Dow and its own A-D line is creating a "vacuum" under the Dow.



This study suggests that the Dow, the apparent "strength" of the market, is actually showing signs of internal weakness. Considering that the primary trend of the market is bearish, it should be only a matter of time before the Dow confirms the Transports. For a downside confirmation, the Dow would have to break below its April low of **3593.35.**

WHAT -- the San Diego Chargers are the only 4-0 unbeaten team in the entire NFL. Who would have believed it? (The "experts" almost unanimously picked the Chargers to be at the bottom of the AFC West). So much for the experts.

People are still asking me why I don't travel. San Diego -- mountains and then desert 20 miles to the east, the Pacific Ocean a mile to the West, Mexico 20 miles to the South, LA 120 miles to the North. Why leave?

NEXT MAILING: Oct. 12, 1994